

**REPORT OF THE AUDIT OF THE
FORMER MUHLENBERG COUNTY
SHERIFF'S SETTLEMENT - 2004 UNMINED COAL TAXES**

October 21, 2005



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MUHLENBERG COUNTY SHERIFF'S SETTLEMENT - 2004 UNMINED COAL TAXES

October 21, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Unmined Coal Taxes as of October 21, 2005 for the former Muhlenberg County Sheriff. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected \$151,416 for the districts for 2004 unmined coal taxes, retaining commissions of \$5,083 to operate the Sheriff's office. The former Sheriff distributed \$146,333 to the districts for 2004 unmined coal taxes.

Report Comment:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Rick Newman, Muhlenberg County Judge/Executive

Honorable Jerry D. Mayhugh, Former Muhlenberg County Sheriff

Honorable Charles Perry, Muhlenburg County Sheriff

Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

We have audited the former Muhlenberg County Sheriff's Settlement - 2004 Unmined Coal Taxes as of October 21, 2005. This tax settlement is the responsibility of the former Muhlenberg County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Muhlenberg County Sheriff's unmined coal taxes charged, credited, and paid as of October 21, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2007, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Rick Newman, Muhlenberg County Judge/Executive
Honorable Jerry Mayhugh, Former Muhlenberg County Sheriff
Honorable Charles Perry, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 28, 2007

MUHLENBERG COUNTY
JERRY D. MAYHUGH, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2004 UNMINED COAL TAXES

October 21, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 19,011	\$ 21,823	\$ 98,421	\$ 25,942
Penalties	13	15	67	18
Gross Chargeable to Sheriff	19,024	21,838	98,488	25,960
<u>Credits</u>				
Exonerations	1,016	1,167	5,261	1,387
Discounts	348	399	1,799	474
Delinquents	235	270	1,217	321
Total Credits	1,599	1,836	8,277	2,182
Taxes Collected	17,425	20,002	90,211	23,778
Less: Commissions *	741	850	2,481	1,011
Taxes Due	16,684	19,152	87,730	22,767
Taxes Paid	16,684	19,152	87,730	22,767
Due Districts as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on \$ 61,205

2.75% on \$ 90,211

The accompanying notes are an integral part of this financial statement.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT

October 21, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MUHLENBERG COUNTY
NOTES TO FINANCIAL STATEMENT
OCTOBER 21, 2005
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of October 21, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 1, 2005 through October 21, 2005.

Note 4. Interest Income

The former Muhlenberg County Sheriff earned \$29 as interest income on 2004 unmined coal taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Muhlenberg County Sheriff collected \$8 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The former Muhlenberg County Sheriff collected \$9 of advertising costs and \$10 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). These fees were used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION

MUHLENBERG COUNTY
JERRY D. MAYHUGH, FORMER SHERIFF
COMMENT AND RECOMMENDATION

As of October 21, 2005

INTERNAL CONTROL - REPORTABLE CONDITION:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office had a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official had limited options for establishing an adequate segregation of duties. The following compensating controls should have been implemented to offset this internal control weakness:

- The former Sheriff should have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. He could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The former Sheriff should have compared the monthly tax reports to receipts and disbursements ledgers for accuracy. The former Sheriff could have documented this by initialing the monthly tax reports.
- The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff Jerry Mayhugh's Response: None

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties - Repeated

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rick Newman, Muhlenberg County Judge/Executive
Honorable Jerry D. Mayhugh, Former Muhlenberg County Sheriff
Honorable Charles Perry, Muhlenberg County Sheriff
Members of the Muhlenberg County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards**

We have audited the former Muhlenberg County Sheriff's Settlement - 2004 Unmined Coal Taxes as of October 21, 2005, and have issued our report thereon dated March 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Muhlenberg County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Muhlenberg County Sheriff's Settlement - 2004 Unmined Coal Taxes as of October 21, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

March 28, 2007

